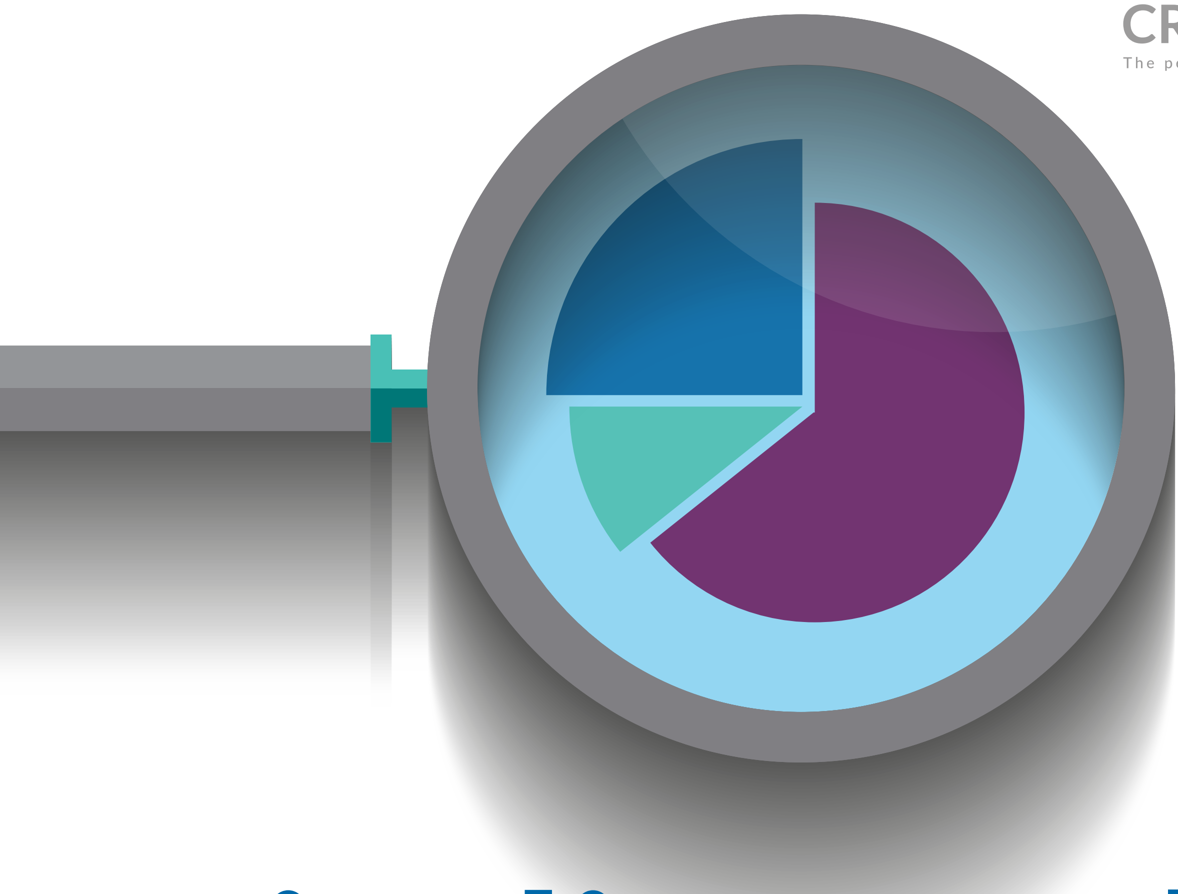

Finding Value

Stephen Daintith, Group Finance Director at Rolls-Royce, reveals how the CFO's role is changing and advises how to meet those challenges

1. Don't Shy Away from Investing in Growth

For a long time CFOs have tended to be driven by cost-cutting measures in organisations; don't get me wrong they have their place. The attraction of a cost-cutting exercise is that you can pretty much control what's happening.

It's not without its difficulties, but it's relatively straightforward to deliver savings by reducing budgets or headcount, for example.

Investing for growth on the other hand is much harder, it's like buying a business that you know nothing about. You're being asked to invest in something that may or may not perform as expected, or even exist in the future.

The way I have approached it is to set aside an amount for investing in growth. Let's say, for example, that you target 10 per cent of your revenue.

Then, once we decide on an investment, it's important to have milestones along the way. This acts as a staging gate so you don't invest too much, too soon. It allows you to understand what's supposed to be delivered and whether it's flowing the way it was predicted.

2. Understand How Technology Impacts Your Business

In my former role at DMGT, our technology development spend was around £15 million over the five years to 2010. In contrast, over the >

following five years the company would have capitalised and spent in excess of £300 million. There has been an enormous acceleration to keep up with competition, develop products and innovate stronger and harder than ever before.

That puts challenges and responsibilities on the CFO to ensure we're always spending money wisely. They must get involved in the debate, understand what the business is building and what the payback will look like.

There's another topic that's come up – which is brand new for me and will be for many CFOs – and that's the notion of measuring your technology debt. This is the understanding of your IT systems across an organisation and the cost of replacing or upgrading them. It isn't recorded on your balance sheet, but is a contingent liability.

One CTO gave me some good advice and said: 'Ask more simple questions: ask why, how and what? And don't accept our answers.' Technology is a space where jargon can be used, so ask the common sense questions and flesh out the real issues.

3. Take Calculated Risks

The CFO can be a handbrake on a business, and I think that's wrong. There are times when you have to acknowledge that your colleagues around you want to take a risk or pursue something.

You've got to be agile in that sense, and not die in the ditch on every single matter – which, as CFOs, we can be a bit guilty of.

CFOs are often guilty of falling into the traditional response that it can't work because the internal rate of return isn't the right number. That's a mistake.

After all, you don't make money without taking risks. The trick with every opportunity is to understand what the risks are, how you would manage them and how you would respond to any new ones that emerge.

Some investments are far riskier than others. I've always been a fan of not chasing small money when there's large risk attached to it.

It's naive to think you can avoid risk – you just can't. They key is to make sensible decisions, and try to minimise risks within the context of those decisions.

4. Get Closer to the Customer

The role of the CFO – as a member of the executive team and/or the board – is to have a deep understanding of the customer. The role starts and stops with a customer, because if they don't buy your products or services that's the end of the game.

Some of the best business decisions I've seen are down to whether we think about the customer, what they're wanting to get from the company, how we might exceed their expectations and what they're getting from the competition.

I worked for a fast-moving consumer goods company for ten years. The conversations there, 99 times out of 100, were about the consumer. We'd ask where they bought our products, how often they used them and whether they enjoyed them. We'd also look into whether they were switching to other brands.

In that particular organisation, the Marketing Director was the most important person in the room. They were more important than the Chief Executive and certainly more important than the CFO. They protected, drove, understood and developed the brand. We got very close to the customer there. ■

This interview is taken from the Criticaleye video series, in association with Accenture, The CFO as Architect of Business Value. Watch the full series here

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Stephen joined Rolls-Royce at the beginning of 2017 as Group Finance Director. Prior to this, he was Group FD at DMGT. He has also held CFO roles at Dow Jones and News International.

Earlier in his career, he held several senior positions at British American Tobacco, including CEO of their Switzerland and Bangladesh businesses and CFO at their Pakistan and South Africa operations.

Stephen is also a Non-executive Director at Euromoney Institutional Investor, RMS and Zoopla Property Group.

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